STAT

Approved For Release 2005/08/22 : CIA-RDP85T00875R001900020023-1

5-6

CIA/OER/S-06420-74

USSR Hard Currency Trade and Debt

STAT

Background

The Soviet hard currency deficit* averaged about $250 million annually during the period 1960-71 (Table 1). Until the mid-1960s, these deficits were financed primarily by gold sales and by the end of 1965, Soviet gold reserves were down to about 900 tons. After 1965 Western government-guaranteed medium- and long-term credits applied to Soviet purchases of capital goods replaced gold as the chief element in financing Soviet deficits. In the period 1966-71, Soviet gold sales were virtually nil and reserves grew to an estimated 1,750 tons by the end of 1971, but Soviet medium- and long-term debt to the West (on government-guaranteed credits) apparently grew to more than $2 billion (Table 2). In 1971 debt service (principal and interest) took about 17% of Soviet hard currency exports.

STAT

* Deficit refers to the merchandise trade deficit. Several elements of the current account cannot be estimated. Those that can (e.g., tourism and interest on loans) indicate that the merchandise trade balance does not differ substantially from the balance on current account.

16

Table 1

USSR Hard Currency Trade Deficit and Gold Sales
1960-1973

	Hard Currency Exports (In Million US $)	Hard Currency Imports (In Million US $)	Hard Currency Balance[a] (In Million US $)	Gold Sales[b] (Million $)	Gold Sales[b] (Tons)	Gold Reserves[c] (Tons)
1960	739	1,018	-279	149	132	2,200
1961	866	1,059	-193	310	275	2,020
1962	912	1,179	-267	239	212	1,905
1963	969	1,279	-310	523	465	1,550
1964	1,011	1,544	-533	520	462	1,205
1965	1,331	1,546	-215	490	435	895
1966	1,479	1,746	-267	45	40	990
1967	1,688	1,604	+84	10	9	1,125
1968	1,896	2,004	-108	10	9	1,265
1969	2,109	2,422	-313	n.r.	n.r.	1,420
1970	2,182	2,699	-517	4	3	1,580
1971	2,646	2,955	-309	22	19	1,735
1972	2,815	4,171	-1,357	250-300	150	1,790
1973[d]	3,300	5,000	-1,700	900-950	300	1,710

a. Based on official Soviet data.
b. Calculated at the official rate of $35 an ounce for sales in 1960-68 and estimated free market prices subsequently.
c. Rounded to nearest 5 tons.
d. Estimated.

Table 2

Estimated Soviet Drawings and Scheduled Repayments on Western Government-Guaranteed Medium-Term and Long-Term Credits

Million US $

Year	Drawings	Scheduled Repayments Principal and Interest	Net Credits	Outstanding Debt at the End of the Year
1966	275	170	105	505
1967	305	181	124	658
1968	510	255	255	951
1969	630	322	309	1,316
1970	700	379	321	1,717
1971	700	463	237	2,057
1972[a]	1,030	562	468	2,649
1973[a] [b]	1,690	895	795	3,612

a. Includes drawings on 3-year CCC credits.
b. Preliminary.

Recent Developments

A poor harvest in 1972 forced the USSR to purchase large quantities of grain and other agricultural products to sustain Brezhnev's program for upgrading the Soviet diet. At the same time, the continued disappointing performance in the industrial sector strengthened the leadership's determination to upgrade its industrial plant by stepping up imports of high technology machinery and equipment. In 1972 the trade deficit rose to a record $1.4 billion. (See Table 1) Large imports of grain -- about $750 million worth -- and other agricultural products accounted for much of the deficit, but imports of machinery and equipment and steel pipe also rose. Exports of oil -- the USSR's main hard currency earner -- declined slightly,[2/] while other traditional exports declined or did not increase.

The USSR's hard currency merchandise trade deficit apparently was even greater in 1972 -- perhaps about $1.7 billion -- largely because much of the grain purchased in 1972 was delivered in that year. The USSR probably imported at least $1.5 billion in agricultural products (chiefly grain) and about $1.5 billion in machinery and equipment. Export endurance was better than in 1972, however, in part because of higher prices for oil.

To cover the 1972 deficit the USSR relied chiefly on credit. Government-backed net medium- and long-term credits amounted to about $500 million, and about $100 million of CCC 3-year credits were drawn to finance grain purchases from the United States. As a result of its extensive borrowing in 1972, total outstanding debt on government-backed credits climbed to about $2.6 billion. The USSR also tapped the

2. Oil exports might have declined even more were it not for Soviet imports of oil from the Middle East.

Eurocurrency market for several hundred million dollars in both medium- and short-term credits to finance imports of machinery and grain. The USSR also sold gold in substantial quantities for the first time since 1965.

In 1973 the USSR took advantage of high gold prices (and generally avoided high interest rates in the Eurocurrency market) in financing its hard currency trade deficit. The USSR sold about 300 tons which probably earned the Soviets about $950 million.[3] Much of the remaining deficit was covered by government-backed Western credits (including $400 million in CCC credits). Thus the burden of the USSR's recent trade deficits was lightened considerably by easy access to Western credits and by the windfall arising from the sharp increase in the price of gold. In addition, dollar devaluations permitted the substantial Soviet borrowing on the Eurodollar market in 1972 to be repaid by cheaper dollars.

Balance of Payments Prospects 1974-1975

Soviet hard currency earnings, buoyed by rapid price increases for traditional Soviet exports and record gold prices, should rise rapidly over the next few years. With expenditures for Western grain in 1974 expected to be half or less of 1973 outlays, these earnings could easily support

3. Sales of 300 tons would have reduced gold reserves to about 1,700 tons -- the first decline in reserves since 1965.

an unprecedented rise of Soviet imports of Western plant, equipment and other goods. Imports of machinery and equipment, which rose sharply in 1972 and 1973, will increase even more rapidly during 1974-1975 as evidenced by the growing volume of new contracts concluded in the past two years. The value of recorded contracts increased from $800 million in 1971 to $1.7 billion in 1972 and $2.5 billion in 1973.

The Soviets traditionally have been loth to hold foreign exchange in excess of working balances because of fears of devaluations. As a result, the increased earnings from exports and gold sales may result in a increased imports, possibly less use of Western medium-term and long-term credits, or even prepayment of existing debts. The import maximizing level of purchases during 1974-1975, is, in turn dependent upon these variables.

Exports

Exports will rise sharply during 1974-1975 because of the much higher prices the USSR will be receiving for oil and raw materials. Supported by Soviet imports from the Middle East under barter arrangements, exports of crude oil may reach 42 million tons in 1974 and 51 million tons in 1975 (up from 35 million tons in 1973). With market prices expected to range between $7 and $10 per barrel, oil exports alone may earn the Soviets $2-$3 billion in 1974 and $2.6-$3.7 billion in 1975. Increasing prices for wood products, chemicals, and coal, along with expanded deliveries of natural gas could push total Soviet exports to over $5.8 billion in 1974 (double the 1972 level) and $6.8 billion in 1975. (See Table 3 below).

Table 3

Soviet Hard Currency Exports, 1972-1980*

Million US $

Year	Oil	Natural Gas	Other	Total
1972	555	24	2,195	2,774
1973	840	75	2,325	3,250
1974	2,145 (3,050)	110	2,685	4,940 (5,845)
1975	2,604 (3,720)	205	2,930	5,739 (6,855)
1976	2,810 (4,015)	274 (344)	3,200	6,284 (7,559)
1977	2,555 (3,650)	391 (515)	3,490	6,438 (7,652)
1978	2,044 (2,920)	441 (583)	3,800	6,285 (7,303)
1979	1,533 (2,190)	714 (1,027)	4,140	6,387 (7,357)
1980	1,022 (1,460)	714 (1,027)	4,515	6,215 (7,002)

* Oil prices during 1974-1975 are estimated at $7 and $10 per barrel (in parenthesis). Natural gas prices in turn are estimated at the equivalent of prevailing oil prices, with the $10 equivalence value presented (in parenthesis).

Other Earnings

Soviet foreign exchange earnings during this period will also benefit from increased net revenues resulting from Soviet shipping and Western tourists traveling in the USSR. Together these sources are expected to earn $155 million in 1974 and $204 million in 1975. In comparison the same sources accounted for only about $70 million in 1973. Soviet gold sales, however, represent the largest single additional source of potential foreign exchange earnings. Soviet gold reserves are currently estimated at about 2,000 tons*, a far more than adequat amount in view of the USSR's annual value of imports -- $5 billion estimated for 1973 -- and existing long-term debt -- $3.6 billion by end of 1973. As a result the Soviets would be free to market most, if not all, of current gold production in Western markets. Such a course of action would earn the USSR (at a price of $100 and ounce) some $720 million in 1974 and $890 million in 1975.

Credit Drawings

Credit drawings and debt service are the other major variables affecting Soviet import potential during 1974-1975. To the extent that the USSR continues to draw heavily on Western credits, total import capacity will be enhanced over the short term. Conversly, continued borrowing at such

* Valued at more than $10 billion at current market prices.

levels will lead to a more rapid accumulation of debt and high debt service payments over the long run. Continued Soviet insistance on long-term credits in support of orders recently concluded or currently being negotiated in the West indicates that a large volume of deliveries for capital equipment during 1974-1975 will be on credit. It is quite possible however, that in the future the Soviets will pay cash for some of these purchases because of large export surpluses.

Import Maximization

The level of imports which the USSR can sustain during 1974-1975 without diminishing its reserves and without recourse to short-term borrowing will far exceed the levels obtainable in earlier years. This increase is underscored in view of the fact that $1.5 billion of the anticipated $5 billion in Soviet imports from the West in 1973 largely consisted of crisis associated purchases of agricultural products. If the Soviets were to maximize imports* during 1974-1975, imports could rise as high as $6.7 billion and $8 billion in 1974 and 1975 respectively. For such levels to occur, however, the following conditions must prevail.

* For analytical purposes any lags which may occur between cash receipts and disbursements for additional imports are disregarded.

- Oil will sell at $10 per barrel.
- The Soviets will sell most of current gold production at $100 per ounce.
- The USSR continues to secure long-term financing for a major portion of its capital goods imports.

If oil prices were to sell at $7 per barrel, potential import levels would be $900 million less in 1974 and $1,100 million in 1975. Similarly, if the USSR does not continue to sell gold during 1974-1975, attainable import levels would be reduced by $720 million and $890 million respectively. Evidence indicates, however, that the Soviets may be selling gold this year in response to high prices. A change in Soviet usage of Western credits would also have a adverse effect on potential import levels. If, for example, capital equipment in 1974-1975 were to be paid for in cash, the attainable import levels would fall by $1,270 million in 1974 and $1,500 million in 1975. Thus the least optimal combination -- $7 oil, no gold sales, and no purchases on credit -- would permit imports of $3.7 billion in 1974 and $4.7 billion in 1975.

Of these possible combinations of events it appears unlikely that the USSR will opt for significant cash payments for capital goods imports. It may, however, discontinue gold sales in the short term. If the Soviets continue to use credits and sell gold as they have in recent years, they should be able to import between $5.7 billion -- $6.7 billion in 1974 and $6.9 billion to $8.0 billion in 1975, with the actual value dependent upon the world market prices for oil (expected to lie between $7-$10 per barrel).

Debt and Debt Service

Regardless of the course it follows the USSR will continue to be in good shape with respect to debt accumulation and debt service in the short term. If, for example, the USSR continues to finance the same portion of its capital goods imports under long-term credits, as it has in recent years outstanding debt will reach $4.7 billion by the end of 1975. Because of the expected increases in Soviet export revenues, however, by 1975 debt service will account -- depending on oil prices -- for 21% to 25% of Soviet export earnings. This former percentage represents a decrease from the 25% of 1973 exports which was required to finance current Soviet debt. Any policy of debt prepayment or reduction of purchases on credit would serve to reduce the level of accumulated debt and annual debt-service payments.

Balance of Payments Prospects 1976-1980

In the long term the outlook for Soviet balance of payments remains positive, although less favorable than for the 1974-1975 period. Soviet exports of crude oil to the West is expected to peak in 1976 at 55 million tons, and subsequently will decline perhaps falling to 20 million tons in 1980. This is because of domestic supply constraints, increased domestic consumption, commitments to Eastern Europe and limitations on barter imports from the Middle East. While the effect of this decline will be partially offset by continued increase in the value of other Soviet exports, particularly natural gas, the net effect will be a stagnation in the growth of Soviet exports and eventually a decline in the value of Soviet products sold in the West. (See Table 3)

Earnings from other sources will also serve to mitigate the impact of the decling oil revenues. Soviet tourism and transportation earnings are expected to continue to outstrip outlays in these areas, while gold production will continue to increase steadily. If the USSR, for example, continues to sell most of its current gold production on Western markets, annual revenues could reach $1.1 billion by 1980.

The falloff in export growth has significant implications for Soviet balance of payments and debt management. If imports on long-term credits continue to increase at present rates throughout the period, and if the USSR concludes the massive cooperative projects now being discussed with the West, e.g. Tyumen, Yakutsk, North Star, total long-term debt could reach $9 billion by 1980. Debt service associated with such a debt would require approximately $2.3 billion, or 35% of projected Soviet exports. Even this amount of debt and debt service, however, would not be considered excessive.

Furthermore, it is unlikely that the USSR would continue to increase drawings on Western credits at present rates. Aware of their diminished export potential for the late 1970's the USSR is more likely to take a more prudent approach, using a portion of their surplus export earnings during the mid-1970's to finance a greater proportion of their capital imports, prepay some of their existing debts, or both. Such actions would reduce the rate of debt accumulation and the proportion of export earnings dedicated to debt service.

Approved For Release 2005/08/22 : CIA-RDP85T00875R001900020023-1

Soviet Hard Currency Balance of Payment 1972 - 1975

	1972		1973a/		1974a/		1975a/	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
Current Account	----	1,375	----	1,860		---		1,239
Merchandise trade d/	2,815	4,171	3,300	5,000	5,845 h/	6,650	6,855 h/	8,000
Transportation (net)	----	---		50	25		63	
Travel	120	25	147	28	162	32	178	37
Interest repayments on long-term credits c/	----	124	----	190	---	265	---	308
Dividends d/	10	---	10		15	---	20	
Transfer payments e/		45		49		54		60
Capital Account	580	---	973		433		600	---
Medium-term and long-term credits	1,030	438	1,690	705	1,410	965	1,737	1,125
Compensation payments f/		12		12		12		12
Gold Sales	300		950		720		890	
Errors and Omissions a/	540			63	----	200		200

a/ Preliminary estimates
b/ Derived from Soviet statistics; exports and imports are f.o.b.
c/ Interest payments are those made on medium-term and long-term credits obtained from Western countries mainly to finance imports of machinery and equipment. Interest payments and receipts on short-term loans are not included.
d/ Includes profits of Soviet-owned banks and firms in the West.
e/ Payments made in hard currency to the United Nations and UN-affiliated organizations.
f/ Soviet payments or principal and interest in accordance with the US lend-lease "pipeline" agreement.
g/ Includes changes in hard currency holdings, short capital movements, and hard currency repayments from less developed countries for Soviet credit.
h/ Oil exports valued at $10 per barrel.

Projected Trade with Industrial West of
Poland, Romania, and Yugoslavia
(billions of US $)

	1970	1973	1978	1973 - 1978 Annual % Increase
Poland				
Import	0.9	3.3	6.5	14 - 15%
Export	0.96	3.0	4.1	15
Romania				
Import	0.76	1.4	3.2 - 3.4	18 - 20%
Export	0.55	1.2	2.9	19 - 20%
Yugoslavia 1/				
Import	2.15	3.35	5.6 - 5.8	11%-12%
Export	1.01	1.89	3.1 - 3.3	10.6% - 12%

1/ Convertible Currency Area.

Projections were based on a constant annual growth for exports and a declining growth rate for imports over the 1974-1978 period, generally reflecting growth of hard currency indebtedness. Estimates are net of increases in oil prices.

For Romania, already in a debt service bind, imports will have to taper off over the period. Poland, with a deficit already about two-thirds of exports in 1973, will have to cut short its current buying hinge after 1973.

Yugoslavia's imports will depend heavily on its large invisibles receipts (about $2.4 billion in 1973). Most of these receipts are accounted for by tourism, $630 million in 1973, and workers remittance, $1,320 million. While tourist receipts should show a healthy expansion in the 1973-78 period, worker remittances will tend to flatten out, since employment in Western Europe is not apt to increase significantly. This will require some slowing of imports especially after 1975 even with good gains in exports.